



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

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November 22, 2005

Mr. Del Haws, Executive Officer and Chief Council
Alcoholic Beverage Control Appeals Board
300 Capitol Mall, Suite 1245
Sacramento, CA 95814

Dear Mr. Haws:

Final Report—Alcoholic Beverage Control Appeals Board Internal Control Review

Enclosed is our final internal control report on the Alcoholic Beverage Control Appeals Board (Board) as of January 6, 2005. The Department of Finance, Office of State Audits and Evaluations, (Finance) performed this review in accordance with the Financial Integrity and State Managers' Accountability Act of 1983, to provide the Board with information as to whether controls are established and functioning as intended, to provide Board management with opportunities to correct identified weaknesses, and to improve operations.

In accordance with Finance's policy of increased transparency, this report will be placed on the Finance website. We appreciate the assistance and cooperation of Board staff and management during our review. If you have any questions regarding this report, please contact Susan M. Botkin, Manager, or Brandon Nunes, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by Janet I. Rosman

Janet I. Rosman, Assistant Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Jerry R. Jolly, Director, Department of Alcoholic Beverage Control
Mr. Dennis Clear, Assistant Director, Administration, Department of Alcoholic Beverage Control
Mr. Larry Mills, Fiscal Officer, Department of Alcoholic Beverage Control
Ms. Joyce Bray, Staff Management Auditor, Business, Transportation, and Housing Agency

AN INTERNAL CONTROL REVIEW

Alcoholic Beverage Control Appeals Board

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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The Alcoholic Beverage Control Appeals Board (Board) consists of three members appointed by the Governor. The Board provides a forum of appeal to persons who are dissatisfied with the Department of Alcoholic Beverage Control's (Department) decision to assign penalties or issue, deny, condition, transfer, suspend or revoke any alcoholic beverage license. The Board hears oral arguments on the appropriateness of the Department's decision and prepares, publishes, and distributes a formal written opinion. The Board is supported by a surcharge on license fees of the Department.

Furthermore, as a result of the Board's organizational size and funding, the Department provides for most of the fiscal and administrative support for the Board. Therefore, our review was performed concurrent with our review of the Department's internal controls. A separate report was issued to the Department with reportable conditions described in the *Findings and Recommendations* section of that report.

Board management is responsible for the establishment and maintenance of internal and administrative controls. These controls are defined as a process to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting; (b) effectiveness and efficiency of operations; and (c) compliance with applicable laws and regulations. This definition includes five interrelated components:

- *Control environment* sets the tone of an organization, influencing the control consciousness of its staff. It is the foundation for all other internal control components, providing discipline and structure.
- *Risk assessment* is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
- *Control activities* are the policies and procedures that help ensure management directives are carried out.
- *Information and communication* are the identification, capture, and exchange of information in a form and time frame that enable staff to carry out their responsibilities.
- *Monitoring* is the process that assesses the quality of internal control performance over time.

The objective of our internal control review was to assist the Board in complying with the Financial Integrity and State Managers' Accountability Act of 1983. Specifically, we assisted the Board in determining whether: (1) assets are safeguarded from

unauthorized use or disposition, (2) financial transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of reliable financial statements, and (3) financial operations are conducted in accordance with State Administrative Manual guidelines, and certain other state laws and regulations, as well as the Board's policies and procedures.

Our review did not include an evaluation of the efficiency or effectiveness of the Board's operations, or the accomplishment of program goals or objectives.

This report is intended for the information and use of the Board and should not be used for any other purpose. However, the report is a matter of public record and its distribution is not limited.

STAFF:

Susan M. Botkin, CGFM
Manager

Brandon Nunes
Supervisor

Crystal Greenwell
Michael Bratman
Ramon Juarez



AUDITOR'S REPORT

Mr. Del Haws, Executive Officer and Chief Counsel
Alcoholic Beverage Control Appeals Board
300 Capitol Mall, Suite 1245
Sacramento, CA 95834

We have reviewed the Alcoholic Beverage Control Appeals Board's (Board) internal controls in effect as of January 6, 2005, for conformity with Government Code Section 13400 et seq. Our review included obtaining an understanding of internal control through observations and interviews, testing and evaluating the design and operating effectiveness of the internal control, and performing other procedures we considered necessary.

The Board's management is responsible for establishing and maintaining adequate internal controls. This responsibility, in accordance with Government Code Section 13400 et seq., includes documenting internal controls, communicating requirements to employees, and assuring that the internal controls are functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control are to provide reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

Because of inherent limitations in internal controls, misstatements due to error or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that the internal controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

In reviewing the Board's internal controls in effect as of January 6, 2005, we did not note any matters involving the internal control and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention

relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect the Board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

This report is intended solely for the information and use of the Board management and is not intended to be and should not be used by anyone other than this specified party. However, this report is a matter of public record and its distribution is not limited.

Original signed by Janet I. Rosman

Janet I. Rosman, CPA
Assistant Chief, Office of State Audits and Evaluations
(916) 322-2985

January 6, 2005

CONCLUSION

This report is based on fieldwork performed between November 15, 2004 and January 6, 2005. We presented other non-reportable findings and observations to the related divisions and units at the completion of each cycle, at interim pre-exit meetings, and again during our exit conference on January 13, 2005.